

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 L-03 H-01 PA-01
PRS-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15 STR-04
OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00
XMB-02 OPIC-03 LAB-04 SIL-01 IGA-02 /106 W
-----142031Z 028049 /43

P 140643Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 7060

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USADB

PASS TREASURY FOR ZINMAN

E.O. 11652: ADS, DECLAS 3/14/79

TAGS: EAID, EFIN

SUBJECT: QUESTION FROM HOUSE SUBCOMMITTEE HEARINGS: PART II

REF: TREASURY 77-23

FOLLOWING IS SECOND PART OF ADB RESPONSE TO REFTEL. IT
CONTAINS IN CONDENSED WAY ANSWERS TO QUESTIONS IN PARA.
2(A) THROUGH (F) TO REFTEL:

1. ITEM (A): ANY RELEVANT INFORMATION ON ADB DISBURSEMENT
PROCEDURES THAT IS NOT CONTAINED IN THE BOOKLET "PROCEDURE
FOR DISBURSEMENT OF LOANS FROM ORDINARY CAPITAL RESOURCES,
SEPTEMBER 1976."

ANSWER: THE BANK HAS NOT SO FAR ALLOWED ANY EXCEPTIONS TO
THE STANDARD DISBURSEMENT PROCEDURES SPECIFIED IN THE BOOKLET
OR WITHOUT THE REQUIRED SUPPORTING DOCUMENTS PRESCRIBED IN
IT. IT HAS ALSO NOT BEEN NECESSARY FOR THE BANK TO MAKE
DISBURSEMENTS UNDER SPECIAL ARRANGEMENTS MENTIONED IN THE
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BOOKLET. (FOOTNOTE: PARAGRAPH 5, PAGE 8 OF THE BOOKLET
ALLOWS BORROWERS TO REQUEST WITHDRAWALS ON THE BASIS OF
THEIR CERTIFICATE OF PAYMENTS WHEN EVIDENCE OF SPECIFIC
EXPENDITURES IS NOT AVAILABLE. PARAGRAPH 3, PAGE 13 OF
THE BOOKLET ALLOWS BORROWERS, IN SPECIAL CIRCUMSTANCES
AND SUBJECT TO THE BANK'S AGREEMENT, TO OBTAIN LOAN FUNDS
FOR THEIR OWN ACCOUNT, AND THEN TO MAKE PAYMENTS TO SUPPLIERS

FROM FUNDS SO WITHDRAWN."

2. ITEM (B): THE PROPORTION OF DISBURSEMENTS MADE PURSUANT TO EACH PROCEDURE REFERRED TO IN THE BOOKLET.

ANSWER: THE BANK DOES NOT MAINTAIN STATISTICS ON THE BASIS OF THE PARTICULAR DISBURSEMENT PROCEDURES ADOPTED. IT MAY BE MENTIONED, HOWEVER, THAT "QUALIFIED COMMITMENT" IS THE MOST FREQUENTLY USED PROCEDURE. "DIRECT PAYMENT" PROCEDURE COMES NEXT, AND IS USED MAINLY FOR CONTRACTS INVOLVING PROGRESSIVE PAYMENTS, SUCH AS FOR CONSULTANCY SERVICES AND CIVIL WORKS. "REIMBURSEMENT" PROCEDURE IS ADOPTED IN PREFERENCE TO OTHERS BY A FEW MEMBER COUNTRIES, BUT THE PROPORTION OF SUCH DISBURSEMENTS IS THE LOWEST.

3. ITEM (C): ADB AND BORROWERS' RIGHTS AND PRACTICES IN AUDITING SUPPLIERS AND CONSULTANTS.

ANSWER: RIGHTS AND PRACTICES OF THE BANK

I. BANK LOANS ARE DISBURSED TO ITS BORROWERS FOR MAKING PAYMENTS BY THE BORROWERS TO SUPPLIERS AND CONSULTANTS. THE BANK ESTABLISHES NO CONTRACTUAL RELATIONSHIP WITH THOSE WHO SUPPLY GOODS OR SERVICES TO BORROWERS OF BANK LOANS. THE BANK, THEREFORE, DOES NOT MAKE ANY ARRANGEMENTS DIRECTLY WITH SUPPLIERS OR CONSULTANTS FOR AUDITING THEIR ACCOUNTS WITH RESPECT TO GOODS AND SERVICES SUPPLIED BY THEM TO BORROWERS OF BANK LOANS.

II. THE BANK, HOWEVER, REQUIRES ITS BORROWERS TO MAINTAIN ADEQUATE RECORDS AND ACCOUNTS RELATING TO THE USE OF THE PROCEEDS OF LOANS AND TO FURNISH THE BANK WITH SUCH INFORMATION AND REPORTS AS THE BANK MAY REQUEST CONCERNING LIMITED OFFICIAL USE

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THE EXPENDITURE OF THE PROCEEDS OF LOANS. THE BANK ALSO REQUIRES ITS BORROWERS TO OBTAIN APPROVAL OF THE BANK FOR CONTRACTS WHICH ARE TO BE MADE BY THEM WITH THEIR SUPPLIERS OR CONSULTANTS. THROUGH SUCH PROCEDURE, THE BANK CAN ENSURE THAT ALL ARRANGEMENTS WHICH THE BANK CONSIDERS APPROPRIATE ARE INCLUDED IN SUCH CONTRACTS. THIS ASPECTS IF FURTHER DISCUSSED BELOW.

RIGHTS AND PRACTICES OF BORROWERS:-

III. IT IS THE RESPONSIBILITY OF BORROWERS TO MAKE APPROPRIATE CONTRACTUAL ARRANGEMENTS WITH THEIR SUPPLIERS AND CONSULTANTS WITH RESPECT TO GOODS AND SERVICES TO BE FINANCED BY THE BANK, PROVIDED THAT SUCH CONTRACTUAL ARRANGEMENTS SHOULD BE SATISFACTORY TO THE BANK IN TERMS OF THE BANK'S LENDING POLICIES AND PROCEDURES.

IV. AS FAR AS SUPPLY CONTRACTS ARE CONCERNED, THE BANK DOES NOT REQUIRE OR SUGGEST ITS BORROWERS TO

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INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 /104 W
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INCLUDE IN SUPPLY CONTRACTS ANY PROVISION FOR AUDITING THE SUPPLIERS. IT IS ALSO THE NORMAL PRACTICE OF BORROWERS NOT TO INCLUDE ANY SUCH ADUTITING PROVISION IN THEIR SUPPLY CONTRACTS. A SUPPLY CONTRACT IS USUALLY AWARDED TO THE LOEST EVALUATED BIDDER AFTER INTERNATIONAL COMPETITIVE BIDDING; FURTHERMORE, A SUPPLY CONTRACT IS USUALLY ON A FIXED PRICE BASIS (SUBJECT TO A SUITABLE COST ESCALATION CLAUSE IN CERTAIN CASES). IT IS, THEREFORE, CONSIDERED THAT THERE IS LITTLE PRACTICAL NECESSITY FOR INCLUDING AUDITING PROVISIONS IN SUPPLY CONTRACTS. (FOOTNOTE: WITNESSING OF TESTS AND INSPECTIONS DURING MANUFACURING, HOWEVER, IS USED WIDELY WHERE LARGE AND IMPORTANT CONTRACTS ARE INVOLVED. FOR LARGE AND IMPORTANT CIVIL WORKS THE BORROWERS NORMALLY EMPLOYS EXPERIENCED AND REPUTED CONSULTANTS TO SUPERVISE CONSTRUCTION WORKS. CERTIFIED PROGRESS REPORTS ARE SUBMITTED BY THESE CONSULTANTS TO THE BORROWER AND TO THE BANK PRIOR TO PAYMENT.)

V. IN THE CASE OF CONSULTANTS, HOWEVER, THE SITUATION IS SOMEWHAT DIFFERENT. CONSULTANT CONTRACTS ARE USUALLY

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MADE ON A COST-PLUS-FEE BASIS, WHICH MEANS THAT PAYMENTS TO CONSULTANTS ARE TO BE DETERMINED ON THE BASIS OF COSTS

ACTUALLY INCURRED BY THEM PLUS A REASONABLE PROFIT MARGIN. VERIFICATION OF COSTS CLAIMED BY CONSULTANTS UNDER SUCH A CONTRACTUAL ARRANGEMENT MAY BE NEEDED IN CERTAIN SITUATIONS. ACCORDINGLY, THE BANK REQUESTS ITS BORROWERS TO INCLUDE IN THEIR CONSULTANT CONTRACT PROVISIONS TO THE EFFECT (A) THE CONSULTANT SHOULD KEEP ACCURATE AND SYSTEMATIC ACCOUNTS AND RECORDS IN RESPECT TO THEIR SERVICES IN SUCH FORM AND DETAIL AS IS CUSTOMARY IN ITS PROFESSION AND IS SUFFICIENT TO ESTABLISH ACCURATELY THE COSTS ACTUALLY INCURRED BY THEM IN THEIR SERVICES AND (B) THAT THE CONSULTANT SHOULD ALLOW THE DULY AUTHORIZED REPRESENTATIVE OF THE EMPLOYER TO INSPECT SUCH ACCOUNTS AND RECORDS AND MAKE COPIES THEREOF FROM TIME TO TIME AND SHOULD, WHEN REQUESTED BY THE EMPLOYER, SUBMIT SUCH ACCOUNTS AND RECORDS TO AUDIT BY AUDITORS SELECTED BY THE EMPLOYER.

4. ITEM (D): ADB RIGHTS AND PRACTICES IN AUDITING DEVELOPMENT BANKS AND THEIR SUB-BORROWER.

ANSWER: IN EXTENDING LOANS TO DFIS, THE FOLLOWING AUDIT RIGHTS AND PRACTICES ARE USUALLY DETAILED AS STANDARD CONDITION OF THE LOAN AGREEMENT:

I. DFIS ARE REQUIRED TO SUBMIT ANNUAL REPORTS AND FINANCIAL STATEMENTS AUDITED BY AN EXTERNAL AUDITOR ACCEPTABLE TO THE BANK WITHIN AN AGREED TIME PERIOD, USUALLY WITHIN FOUR MONTHS OF THE CLOSE OF THE FINANCIAL YEAR.

II. THE BANK USUALLY REQUIRES THE AUDIT REPORT OF THE DFI TO TAKE THE FORM OF A LONG FORMAT AUDIT WHICH NORMALLY INCLUDES A DETAILED LOAN PORTFOLIO AUDIT PREPARED ACCORDING TO THE BANK'S STANDARD REQUIREMENTS (WHICH ARE ESSENTIALLY THE SAME AS THOSE CONTAINED IN THE IBRD AUDIT REPORT FORM FOR DEVELOPMENT FINANCE COMPANIES).
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THE LONG FORMAT AUDITED REPORT AND STATEMENTS ARE FURTHER EXAMINED BY BANK STAFF AND ANY DEFICIENCIES ARE PROMPTLY BROUGHT TO THE ATTENTION OF THE DIS CONCERNED.

III. THE BANK NORMALLY REQUIRES THE DFI, WHERE APPROPRIATE, TO ALSO REQUIRE THE SUBMISSIONS OF LONG FORMAT AUDIT REPORTS FROM ITS SUB-BORROWERS.

IV. IN ADDITION TO THE STANDARD REQUIREMENT OF A LONG FORMAT AUDIT REPORT, PROVISION IS MADE IN THE LOAN DOCUMENTS WHEREBY THE BANK AND THE DFI ARE ENTITLED TO OBTAIN ALL SUCH INFORMATION AND RECORDS RELATING TO EACH SUB-LOAN THAT IT CONSIDERS NECESSARY AND REASONABLE NOR ITS NORMAL LOAN SUPERVISION AND CONTROL FUNCTIONS.

V. THE BANK ALSO REQUIRES A CONTINUOUS FLOW OF INFORMATION IN THE FORM OF PERIODIC (QUARTERLY) PROGRESS

REPORTS TO BE SUBMITTED BY EACH DFI ON ITS UTILIZATION OF PROCEEDS OF THE BANK'S CREDIT LINE. IN ADDITION, DFIS ARE ASKED TO FURNISH STANDARD REPORTS, SOME AT SHORT AND SOME AT LONG INTERVALS, ON THEIR CAPITALIZATION, OPERATIONS, PORTIFOLIO, ARREARS SITUATION, ACCOUNTS (PROFITABILITY AND FINANCIAL STATUS) AND STATUS OF INDIVIDUAL BANK-FINANCED SUB-LOANS. IN THIS WAY, THE BANK IS KEPT CONTINUOUSLY INFORMED ON DEVELOPMENTS AFFECTING THE CASE

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COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 /104 W
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NLOW OF ITS DFI LOANS. APPROPRIATE CORRECTIVE ACTION, WHERE NECESSARY, IS THEN RECOMMENDED FOR WEAK OR PROBLEM AREAS ASSOCIATED WITH THE BANK'S DFI LOANS.

5. ITEM (E): AUDITS BY ADB DURING POST EVALUATIONS.
ANSWER:

I. ONE IMPORTANT ASPECT EMPHASIZED IN BANK'S POST-EVALUATION (PARTICULARLY IN RESPECT OF PERFORMANCE AUDITING) HAS BEEN THE CLOSE SCRUTINY AND ANALYSIS OF UTILIZATION OF THE PROCEEDS OF THE LOAN. SUCH SCRUTINY AND ANALYSIS USUALLY REQUIRE REVIEW OF RECORDS ON PROCUREMENTS AND DISBURSEMENTS, IN PARTICULAR, INTERNATIONAL BIDDING PROCEDURES, CERTIFICATES OF COUNTRIES OR ORIGIN, TIME REQUIRED FOR DELIVERY, ACTUAL MANNER OF DISBURSEMENT, ETC. COMPLIANCE WITH THE BANK'S "GUIDELINES" AND THE LOAN DOCUMENTS ARE ALSO EXAMINED.

II. AUDITS, AS REFERRED TO ABOVE, ARE GENERALLY
CARRIED OUT AS ESSENTIAL INGREDIENTS OF BANK'S POST-
EVALUATION. BUT SUCH AUDITS TO BEYOND MONITORING"CHECKING
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THE CASH FLOW OF LOANS. INsofar AS POST-EVALUATION IN
THE BANK IS PRIMARILY INTENDED TO ENABLE THE BANK
TO LEARN FROM EXPERIENCE, THE QUESTION IS GNERALLY
ASKED AS TO HOW EFFECTIVE HAVE THE RELEVANT PROCEDURES
(I.E., PROCUREMENT, DISBURSEMENT,
MONITORING, ETC.) BEEN IN SATISFACOTORILY AND EFFICIENTLY
IMPLEMENTING THE PROJECT. IN OTHER WORDS, POST-EVALUATION
EXERCISES SEEK NOT ONLY TO DETERMINE IF THERE HAS BEEN
COMPLIANCE WITH LOAN COVENANTS AND PRO-
CEDURAL REQUIREMENTS BUT ALSO TO EVALUATE THE RELEVANCE
AND EFFICACY OF THESE CONVENANTS/REQUIREMENTS IN RELATION
TO THE CIRCUMSTANCES OF PROJECTS CONCERNED.

III. IN CONCLUSION, IN BANK'S POST-EVALUATION STUDIES,
AUDITS ARE CARIED OUT IN ORDER TO DETERMINE IF THE CURRENT
PROCEDURES ARE SATISFACTORY FOR BOTH LENDERS AND BORROWERS
AND TO COME UP WITH SUGGESTIONS ON POSSIBLE IMPROVEMENT
OF PROCEDURES. FOR THIS PURPOSE, RECOMMENDATIONS ARE
INCLUDED IN THE POST-EVALUATION STUDY WITH A VIEW TO
IMPLEMENTING THE RESULTS OF AUDITING (VIDE, FOR EXAMPLE,
"POST-EVALUATION OF THE FIRST LOAN TO INDUSTRIAL FINANCE
CORPORATION OF THAILAND" (THA: PE-1 LOAN NO. 1; AUGUST
1974, PP. 19-24 AND P. 63).

6. ITEM F(F): ANY OTHER RELEVANT MATERIAL.
ANSWER. NONE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, DEVELOPMENT LOANS
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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From: MANILA
Handling Restrictions: n/a
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Litigation History:
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Original Handling Restrictions: n/a
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Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3119387
Secure: OPEN
Status: NATIVE
Subject: QUESTION FROM HOUSE SUBCOMMITTEE HEARINGS: PART II
TAGS: EAID, EFIN, RP, ADB
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/b0577bb8-c288-dd11-92da-001cc4696bcc
Review Markings:
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22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009